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# United States Senate

COMMITTEE ON  
ENERGY AND NATURAL RESOURCES

WASHINGTON, DC 20510-6150

ENERGY.SENATE.GOV

February 14, 2007

The Honorable David M. Walker  
Comptroller General  
U.S. Government Accountability Office  
441 G Street, N.W.  
Washington, D.C. 20548

Dear Mr. Walker:

In January 2003, the Government Accountability Office (GAO) released *Mineral Revenues: A More Systemic Evaluation of the Royalty-In-Kind Pilots Is Needed*. It followed in April 2004 with a second report, *Mineral Revenues: Cost and Revenue Information Needed to Compare Different Approaches for Collecting Federal Oil and Gas Royalties*.

At the time, the Interior Department's Minerals Management Service (MMS) had launched its Royalty-in-Kind (RIK) Program – accepting actual oil and gas as royalty payments, rather than cash – through pilot projects. The GAO's attempt to assess the RIK Program at that stage was unsuccessful because MMS could not provide full and accurate data on the program's costs (including administration, transportation, processing and marketing), savings (if any) over cash royalties (known as Royalty-In-Value) or the total revenue it collected from federal oil and gas sales.

Congress has authorized the Interior Department to accept oil and gas as royalty payments under the Mineral Leasing Act of 1920 and the Outer Continental Shelf Lands Act of 1953, if it receives benefits equal to or greater than the benefit it would have received through cash. Subsequently, in the Energy Policy Act of 2005, Congress provided additional statutory direction to the Interior Department on operation of the RIK Program. MMS now expects approximately 80 percent of its Gulf of Mexico oil and gas royalties to be paid as RIK by 2009.

Given the growth of this program, its potential impact on the Treasury, and the fact that GAO was unable to fully assess the program previously, we are requesting that GAO conduct an assessment of the current state of the RIK Program.


Specifically, we request that GAO respond to the following questions:

1. Does the value of RIK payments equal or exceed the value of royalties that would have been received in-value for oil and for gas as required by statute?
2. Can MMS quantify and compare administrative costs, other expenses (such as transportation, processing and marketing) and revenues between the RIK Program and traditional cash royalties to determine if RIK brings a return equal to or greater than royalty-in-value? With this and the previous question, can MMS offer full and accurate data given the problems identified with its computer databases by the Interior Department's inspector general and others?
3. How financially and managerially effective is MMS at conducting commercial transportation, processing, and marketing functions?
4. MMS claims that RIK reduces the need for the agency to devote audit and oversight resources to ensure the proper collection of royalties. Does the RIK have an adequate audit and oversight program to ensure the proper collection of RIK oil and gas, on the one hand, and its administrative, transportation, processing, and marketing contracts and costs, on the other?
5. Is the MMS Business Plan for the RIK program adequate? Do you have recommendations for improvements?

Thank you for your attention to this important matter. If you or your staff have any questions concerning this request, please contact Angela Becker-Dippmann of the Senate Energy and Natural Resources Committee staff, at (202) 224-5269.

Sincerely,

  
Sen. Jeff Bingaman  
Chairman

  
Sen. Ron Wyden  
Chairman  
Subcommittee on Public  
Lands and Forests